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# THE REVENUE BILL

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SPEECH

OF

HON. JOHN W. WEEKS

OF MASSACHUSETTS

IN THE

SENATE OF THE UNITED STATES

THURSDAY, FEBRUARY 22, 1917



WASHINGTON  
GOVERNMENT PRINTING OFFICE

1917

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The Senate, as in Committee of the Whole, had under consideration the bill (H. R. 20573) to provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications, and for other purposes.

Mr. WEEKS. Mr. President, under ordinary circumstances I should not take the time of the Senate to discuss this bill, for I presume that the action taken by the majority in their caucus is to be carried out on the floor, and that, in a sense, it may be a waste of effort; but I have proposed a substitute for the bill, which I think is so preferable from the standpoint of the taxpayer that I do not only want to explain why I am opposed to the pending legislation, but I wish also to state my reasons for suggesting what I consider to be a better method of procedure.

Mr. President, this is a period of preparedness—military preparedness. We have appropriated, are appropriating this year, and will continue to appropriate large sums of money for this purpose. In order to raise the necessary revenue to pay for these unusual expenditures, unusual methods must be adopted; and the majority party, very largely at least, must be responsible for those methods. In the pending bill we find the possibility of raising revenue, but it is done at the expense of efficiency, of fairness, and is almost entirely a sectional measure.

This is the last period in our history when we should undertake any course which is going to penalize efficiency. The reports from Europe are unanimous that there has been an enormous increase in the industrial efficiency of those countries. Of course, it is impossible to determine this accurately, but we have evidence as to what is being done in Great Britain and in some other sections of Europe. The substance of this evidence is that the increase in efficiency in Great Britain, for instance, has been 60 per cent since the beginning of the war, notwithstanding the fact that men have practically been eliminated from manufacturing establishments and their places taken by old men, boys, and women.

If an examination of the industrial conditions of Europe had not been made, we might have reached the conclusion—due partially to the fact that our exports are tremendous—that the manufacturing industries of Europe were much more seriously crippled than they are. As a matter of fact, there has not been any invasion of Great Britain. Her industries are intact; in fact, have greatly increased in volume of production since the beginning of the war. There has been no enemy on German soil. Therefore, the same thing is undoubtedly true of Germany. Practically speaking, this is the situation in every manufacturing European country, with the exception of northern France,



Belgium, and a very small area in Italy and Austria, and even in these invaded countries the greater part of their manufacturing interests are intact and have increased in efficiency and capacity. Although these nations are our important customers, they have always been our rivals and are going to be far more serious rivals in the future than they have been in the past.

In order to demonstrate the correctness of the statement I have made as to the increased manufacturing capacity of other countries, I want to bring these facts to the attention of the Senate:

England has produced and sold to the world during the 12 months of 1916 goods to the value of \$2,465,107,140 as compared with \$2,096,100,617 in 1914, a gain of \$369,000,000. Of this enormous production and shipment, manufactured articles comprise practically two-thirds of the total.

I ask unanimous consent, Mr. President, to insert herewith a table showing the export from Great Britain in 1914 and in 1916 of articles wholly or partly manufactured.

The VICE PRESIDENT. Without objection, it is so ordered. The table referred to is as follows:

*Export of articles wholly or mainly manufactured.*

	1914	1916
Iron and steel, and manufacturers thereof.....	\$202,776,494	\$275,841,833
Other metals, and manufactures thereof.....	50,043,596	61,905,072
Cutlery, hardware, implements (except machine tools) and instruments.....	31,691,708	31,298,504
Electrical goods and apparatus.....	14,690,016	19,987,844
Machinery.....	152,628,492	98,455,981
Ships (new).....	33,737,274	6,280,583
Manufactures of wood and timber.....	7,613,094	6,222,769
Yarns and textile fabrics:		
Cotton.....	502,546,607	576,401,594
Wool.....	153,294,183	228,243,356
Silk.....	9,078,819	11,106,769
Other materials.....	63,178,173	76,973,439
Apparel.....	70,718,391	81,449,510
Chemicals, drugs, dyes, and colors.....	94,935,978	134,689,283
Leather and manufactures thereof, including gloves, but not boots and shoes.....	22,799,624	23,820,081
Earthenware and glass.....	20,184,489	19,063,603
Paper.....	15,504,371	25,300,651
Railway carriages and trucks (not of iron), motor cars, cycles, etc.....	54,648,643	39,128,056
Miscellaneous.....	147,890,277	198,035,569
Total export of articles.....	1,647,960,238	1,915,795,570

Wholly or mainly manufactured—Gain in 1916 over 1914, \$267,835,332.

Mr. WEEKS. Mr. President, it will be seen that the gain in 1916 over 1914 in these manufactured products is nearly \$268,000,000 and includes most of the staple products, especially many of those articles in which Great Britain is in active competition with this country. For example, it shows an increase of \$74,000,000 in cotton fabrics, \$75,000,000 in woolen fabrics, \$11,000,000 in wearing apparel, \$40,000,000 in chemicals, and \$73,000,000 in iron and steel and manufactures thereof.

Of course, it is fair to state that the difference in the prices of these goods at the manufacturer's door partially makes up for the increase; and comparing the British foreign trade of 1916 with 1915, which shows a gain of £218,000,000, and



reducing the cost to the 1915 price shows that in many articles the volume of production has not materially increased. Substantially speaking, however, production in England is now at its highest level, notwithstanding the handicap under which that country has been laboring in fitting itself for its military necessities.

To illustrate the kind of competition we are likely to meet in the future, let us take another country. During the first 11 months of 1916 Japan exported \$500,000,000 of her products and imported \$350,000,000, showing a trade balance of practically \$150,000,000. During this period exports of cotton yarns and fabrics showed an increase from \$50,000,000 in 1915 to \$71,000,000 in 1916. Matches increased two and a half million dollars; copper, eight millions; and there were very large increases in the Japanese exports of hosiery, much of it finding a place in the American market. In 1916, during these 11 months, Japan sent to the United States goods to the value of \$164,822,000 as compared with \$97,080,000 the year before, an increase of \$67,000,000, or something like 70 per cent.

That, Mr. President, it seems to me, is a fair indication of the kind of competition we will receive from a nation which is expanding tremendously, which is producing at very much less cost than we can produce, and which is going to be an important rival of our industries in the future.

Since the beginning of the European war we have demonstrated how easy it is to transfer American industrial establishments intended for manufacturing commercial products into plants for the manufacture of war munitions. The same development has taken place in all European countries and at the termination of hostilities these war industries will be transferred to peace purposes with equal facility. This, in fact, is the great question which Congress should be considering at this time, and it is especially important that Congress give serious consideration to this question when passing legislation to raise revenue. Instead of wasting time and energy in enacting makeshift legislation of a most haphazard character intended to tide the Government over until another year, it should be working out a definite financial scheme to fit this country to cope with the commercial activities which will occur immediately hostilities cease.

Protectionists—and protectionists include a great majority of the people of this country, I believe—would prepare through the adoption of a protective tariff to meet this emergency. Even if it were not paramount for us to follow such a course, what folly it is for us to adopt such an untried policy and one which is going to be a tax on efficiency and necessitate enormous proportional expenditures in collecting the revenue required. What we should be doing is studying every phase of the European situation and determining the character of the protective policy we should adopt. There must be a restoration of many of the tariff rates which obtained in the past if we are going to have reasonable protection. Those rates must be determined somewhat by the conditions developing as a result of the European conflict and by the character of the commercial conflict which is to follow. No time should be lost in beginning a study of these problems.

We need not only to develop our efficiency and provide reasonable protection to enable us to meet the competition of our for-



foreign commercial rivals at the end of the war, but we must prepare ourselves to face new conditions when this great European struggle is over. For example, we have several millions of men in the United States engaged in the manufacture of munitions. The minute the war is over their employment will cease and they will come into competition with the other workmen in the United States. It is probable that more than 30,000,000—possibly 40,000,000—of men are in the armies of the European countries at war or engaged in the manufacture of munitions of war. They have been taken from their normal pursuits. As soon as the war is over they will return to their employments; they will find their places occupied to some degree by a new element in industrial life, and this element will materially increase the competition for employment which will exist in those countries. As a result of this competition during the readjustment period, it is almost certain that the average wage paid in European countries will be even lower than before the war.

Exactly the opposite condition obtains in the United States. Wages are abnormally high. A reduction in wage and adjustment to new conditions always means that some interest is pinched and that many difficulties must be met during the readjustment period. Moreover, European countries are going to be poor. Poverty does not promote the purchase of products. You can only sell to those who have money to buy; and we should not for a moment be deceived by the specious story that European nations are going to need many of our products to rehabilitate themselves because of the destruction which has taken place. As I have suggested, this destruction has been confined to a very limited area. It will take a long time to replace it, but the replacement is going to be carried on by the people at home. In any event, they will not have the ready money to rehabilitate themselves immediately, and I predict that the purchasing power of Europe will be found to be materially lower than it was before the war.

We are going to find ourselves the great rich Nation of the world. We are going to be able to buy the products of others; they can not buy ours, and unless we erect an artificial barrier to protect our interests we are going to face enormous importations of goods.

Then there is another phase of this question which we must not overlook. Whatever the final action taken may be, it is beyond question that the countries of Europe are seriously considering trade alliances which will make scraps of paper of our commercial treaties and will place a further handicap on our export trade to them. Last year there was held in Paris what was known as the Paris Economic Conference. At this conference a scheme was proposed, seriously discussed, and reported to the allied nations which, in effect, substantially meant free trade between the allied countries, a rate of duty of considerable magnitude between the allies and countries which are now neutral, and a higher rate of duty imposed against the central powers. It has been reported that a similar arrangement was being considered by the central powers.

Moreover, the Scandinavian countries, including Holland and Denmark, have recently had a conference to consider this general question, and especially a proposal to protect the interests of the neutral powers after the war. It is worth noting that



the United States was not invited to take part in the Paris economic conference. It was, however, invited to join the conference of the neutral powers. Whatever may be the final outcome of these proposed trade alliances, trade conditions after the war are going to differ from those of the past.

Our greatest export market has been in Great Britain. It has substantially been a free-trade market. There is no doubt about the adoption of a protective policy by Great Britain, to some degree at least, and this fact is demonstrated by instances rather than settled action. Not long ago the trade-unions of Great Britain in an annual convention or conference of first importance voted practically unanimously in favor of the adoption of a protective policy, and that represents the sentiment of substantially two and a half millions trade-union laborers. There is also a very large element in Parliament favorable to this action.

The point I wish to particularly emphasize is that we are going to face unusual conditions after the war; the solution of the problems arising at that time will require the wisest statesmanship, and we should now be preparing ourselves to meet them. Notwithstanding these probabilities—almost certainties—no action has been taken by the Democratic Party to indicate it has given the subject the slightest consideration. No tax levied or law proposed since the beginning of the European war would lead to the conclusion that those who compose the majority have any thought for this phase of the future.

On the other hand, just before the war a law was enacted lowering the tariff to one-half the average rate imposed under the lowest tariff law we have ever had on our statute books, and under which nearly 70 per cent of our imports come in free. Few people stop to consider that we are enjoying at this time in the war the benefits of a protection as important in its operation as any law we have ever passed. We are unable to obtain any importations from the central powers, or material importations from many other countries, and yet we are importing a larger volume of goods than ever before. People should not be deceived in the slightest degree by our large foreign trade, for the most cursory investigation shows that this trade is incident to the war and originates in those sections producing war materials. Of course these exports are not entirely confined to war materials; they include very many fabrics and articles used during war and for which there will be no demand when the war is over. Without going into detail, it is difficult to comprehend the enormous supplies of such articles as woolen blankets, material for uniforms, shoes, cotton fabrics, and incidentally almost every kind of manufacture in which our people are engaged which go to make up the immense volume of exports we are now shipping abroad and which will cease when the war terminates.

On September 4, 1914, the President called the attention of Congress to the fact that the customs receipts for the month of August were ten millions less than the month of August, 1913, saying that the loss was almost entirely due to the war in Europe and not to a change in our tariff law. Customs receipts for August, 1914, were about \$19,000,000. In August, 1913, under a Republican tariff law they had exceeded \$30,000,000. This falling off in revenues commenced earlier in the year of 1914.



In February, for example, the customs receipts were about \$17,000,000, or \$2,000,000 less than the month of August. For the eight months prior to the war customs receipts averaged \$22,200,000 a month, while for the corresponding months in 1913 they averaged \$30,934,000, or a difference of \$8,700,000 a month. It is not denied that this falling off in customs receipts was due to the decrease in rates of duty and not to a lessening in the importations.

During the calendar year ending December 31, 1916, our imports aggregated \$2,391,716,000. If the rates of duty which obtained under the Payne-Aldrich law had been in operation in 1916—during the life of that law the average ad valorem duty was 19½ per cent—there would have been added to the Treasury through customs receipts \$467,940,000 since the Underwood-Simmons law took effect, which would have practically paid for the extraordinary expenditures which have been made up to this time.

At this time if we would enact a reasonable protective-tariff law and issue bonds to provide for our military preparations we could repeal the war-revenue tax, the income tax, the corporation tax, the inheritance tax, and not pass this proposed excess-profits tax, and still have sufficient revenue to meet the actual needs of Government, imposing such taxes as those to which I have just referred in time of unusual need and reserve them for that purpose. In the meantime we should leave to the States these means untrammelled in providing for their own revenue; in other words, if you ask how the Republican Party would provide for this situation we would reply, we would impose a suitably protective tariff law and provide for unusual demands on the Government through a bond issue, with stringent provisions for its elimination within a reasonable period of time.

This brief summary I have given of the probable situation which will confront us at the end of the war, it seems to me, is sufficient to show the desirability and necessity of adopting a permanent and systematic policy of taxation rather than levying special direct taxes.

There can be no difference of opinion as to the necessity of additional legislation to finance the Government. Notwithstanding the imposition of corporation taxes, income taxes, inheritance taxes, and war-revenue taxes, we find the ready resources of the Government at a lower ebb than they have ever been since the Civil War; in fact, if the condition of the Treasury were fully appreciated and we were not in the midst of a period of business activity in many lines which has been reflected in most directions, it would produce a financial panic. This is due to ineffective tariff legislation, unusual appropriations for military purposes, and an accumulation of harebrained schemes which the majority party have foisted on the country.

Recent discussions in the Senate, even those of yesterday, illustrate the condition in which we find ourselves. It is regrettable to have to say that there seems to be no concerted action to promote reasonable economy or conserve the best interests of our people, and I want to demonstrate to the Senate the deplorable condition of the Treasury.

The daily Treasury statement of Saturday, February 17, 1917, shows a working balance in the general fund of \$70,736,613.82.



There has been deposited to that date in this fund the sum of \$48,128,727 for the retirement of outstanding national bank and Federal reserve bank notes that have been assumed by the United States. If that sum be deducted the amount remaining is \$22,607,886.58. The sum of \$66,485,461.85 has been placed to the credit of disbursing officers and was subject to their checks to the full amount, so that instead of a general fund in the Treasury of \$70,736,613.82 on February 17, 1917, there was in reality a deficit of \$43,877,575.27.

It is hard to take the view of the Secretary of the Treasury that this forty-odd millions paid in by banks to take care of retiring circulation, constituting a demand obligation on the general fund, is not a liability but considered as available funds to meet any other general expense. It is especially difficult to become reconciled to this position of the Secretary in this matter, when in his annual report for the year ending June 30, 1916, in his statement of the condition of the general fund, the item of money deposited by banks to retire circulation—aside from the 5 per cent—is neither carried as a liability nor is there anything to show it as being included in the balance of the general fund; but, on the other hand, it is found as an item in the statement of "Public debt."

The Secretary, in referring to the deposits to the credit of disbursing officers, states:

These disbursing officers' balances consist of amounts placed by the Secretary of the Treasury to the credit of disbursing officers, against which they are authorized to draw checks in payment of public obligations. \* \* \* As a matter of fact, money in many instances is not spent for months, and sometimes not at all, being returned to the Secretary's account. \* \* \* Funds are placed to the credit of disbursing officers practically as a bookkeeping arrangement.

The "public obligations" referred to by the Secretary are, of course, already incurred and due, or are maturing, and it would seem unreasonable to take for granted that deposits would be made with disbursing agents without immediate or near demand for such funds to cover these obligations. Should the Secretary for any reason after making these deposits conclude to order balances with disbursing officers remitted to the Treasury—say, 30, 60, or 90 days after the date of such deposits—the probabilities are strong that such order would be complied with by disbursing officers by filing statements, accompanied with vouchers and other evidence of payments, instead of transferring actual money. It would be true also that the longer disbursing officers withhold statements covering expenditures, the greater would be the fictitious portion of the balance represented by these credits in the general funds apparently available, as shown by published statement.

The condition of the Treasury and the expenditures of the Government are more clearly demonstrated, perhaps, by making comparisons with the past than in any other way. We look back to the Civil War period with the feeling that at the time our armies were the largest in our history, when probably we had a million men in the field, this country had to face enormous expenditures. That is true; and yet, compared with the expenditures of to-day, with the exception of one year, they were almost trivial. I think it fair to say that the appropriations for this year will aggregate as much as \$1,750,000,000. I have not the exact figures before me.



I wish to direct your attention to the expenditures during the Civil War period. Exclusive of postal deficiencies, as there were in those years, the total expenditures of the Government in 1861 were \$61,000,000; in 1862, \$466,000,000; in 1863, \$717,000,000; in 1864, \$863,000,000; in 1865, \$1,294,000,000; and in 1866, \$519,000,000. Even in the year 1865, when the expenditures were 50 per cent more than in any other year of the Civil War and provision was being made for at least a million men in the field, we were not spending very much more than two-thirds of the expenditures for the fiscal year.

The highest expenditures made for our Navy, when we were blockading the whole coast of the Confederacy, during any one year was \$122,000,000, and yet the naval appropriation bill which is about to be taken up will appropriate in the aggregate \$531,000,000—more than four times as much as we spent for naval purposes in any year during the Civil War.

No annual expenditure of the Government before 1890, exclusive of expenditures for postal purposes, exceeded \$400,000,000. At that time, you will remember, there was a great cry against the large expenditures of the Government, and Mr. Speaker Reed, when criticized for his leadership of a Congress which had appropriated a billion dollars, or \$500,000,000 a year, replied that it was a billion-dollar country. Yet we are appropriating very nearly four times as much as we did 26 years ago.

The expenditures during the Spanish War, when we had a considerable Army in the field and bought a great amount of new material, did not aggregate in any one year one-half the amount we are appropriating this year for general expenses.

#### EXCESS-PROFITS TAX.

The excess-profits tax proposed in this bill is unique in the history of taxation. I can not find any record of the imposition of such a tax in time of peace or war. It is a tax upon business; and yet, it does not tax all business, only that conducted by corporations and partnerships. It is not a tax upon the magnitude but essentially upon the economy of operation. It is not a tax on large capital; it may apply with equal force to men of small capital. As its provisions would tax the corporation and partnership differently, it will tend to drive the partnerships into a corporation. As it taxes partnerships or corporations and does not tax the individual conducting the same kind of business, it will have a tendency to prevent the successful individual giving those who have been his employees an opportunity to become interested in the direct profits of the business which their industry and capacity have helped to develop.

This provision of the bill seems to imply that the Democratic Party believes 8 per cent is a sufficient profit and that anyone receiving more than 8 per cent should be taxed—no, not exactly taxed, but should have some part of his profit confiscated for the purposes of government. Perhaps if we were entering upon a policy of controlling industrial action, including the rates of returns paid to those furnishing the capital, we might conclude that 8 per cent would be a sufficient average return; but anyone who knows anything about business will testify to the great irregularity resulting in every industry. There



are years of plenty and years of almost complete failure. In the years of plenty, the frugal and prudent producer lays aside a part of his earnings for the development of his plant, the improvement of his machinery, for any other purpose which will promote the efficiency of his undertaking, in order to enable him to maintain some payment on the capital invested in years when a return is not earned. It is of vital importance to an industry to be able to pay regular dividends. There have become a great number of investors in this country who depend partially or wholly on the income they receive. They will not put their money into an industry which pays large dividends one year and does not pay any for three or four years, as would be the result if the manager, lacking in prudence, were to pay out all of his earnings one year; but if he does provide for the condition I have described the Government comes along and seizes a part of the money which really belongs to the investors in the enterprise in bad years and applies it to governmental purposes. It is a short-sighted and unfair method of procedure.

If you can take 8 per cent, why not take 10 per cent, or 20 or 30? Is that going to be the policy of the Democratic Party? Are we going to have continued the extravagance of the past three or four years—appropriations for purposes like the Shipping Board, the nitrate plant, the armor-making plant, and other similar schemes which every trained and prudent business man knows should not be made, and then seize by actual confiscation the property of our citizens to supply such facilities and go into competition with them? Is that going to be the policy of the Democratic Party? If so, as soon as it penetrates the public understanding there will be a revulsion of feeling which will destroy the ascendancy of a party inaugurating it.

You have already established an income tax, so unfairly levied that it imposes a very large burden on a comparatively few citizens. You have increased the income tax once since the original law was passed. You have imposed an inheritance tax in competition with our own States, which have depended on both of these forms of taxation to obtain necessary revenue. In this bill you propose to increase the inheritance tax. You are now establishing this excess-profits tax. Are you going to increase it if you need more revenue? That is a question of vital importance to the American business man and will determine the kind of business he does and the manner of conducting it. If you are going to establish an 8 per cent limit as a fair profit resulting from the conduct of business, why not insist that any concern earning more than 8 per cent shall contribute to the losses of some other industry not making 8 per cent? Why not provide that no man shall, through his energy and brains, develop a better business than a less efficient competitor? There can be no other result if such a policy as is contained in this bill is adopted. The whole course of this legislation is going to adversely affect American progress, discourage efficiency, and in the long run reduce American wages.

I am going to give a few illustrations of the effect of the application of this proposed law, and I think they will fairly demonstrate the contention I make that the bill is unfair; that it is sectional; that it does not apply with the same force to the



wealth of the country as it does to the efficiency of the country; and that from every standpoint it will be vicious in its results.

(1) The bill is objectionable because it is class legislation. The incomes derived from agriculture and from personal service are to be exempt. Thus, a wealthy farmer or a professional man who may be a lawyer receiving large fees escapes altogether.

(2) Although there is a flat exemption of \$5,000, there would still be many partnerships or close corporations upon which this tax would be a burden, for in many cases the capital invested may be small, the business having been built up entirely by personal effort.

(3) Capital investment is defined as actual money paid in and actual property owned, together with undivided surplus. To ascertain this would involve great difficulty in some cases and would probably necessitate governmental inspection. The latter would be another step toward centralization. In short, the doctrine of "the less government the better" under Democratic rule is being thrown to the winds.

(4) The legislation is punitive in effect. It is leveled at the profits of business, at the effective results of capital and surplus. It is a tax upon the efficiency of the Nation.

(5) In theory an income tax is an ideal one, because the fundamental idea upon which it is founded is that taxation should be imposed according to ability to pay. But there should be as nearly as practicable equality of sacrifice among the taxpayers, and a tax levied at a uniform rate can not produce equality of sacrifice.

The proposed law is in effect an income tax possessing some of the vices and few of the merits which that form of direct tax contains. The only sound income tax is one which reaches everyone in a proportionate degree.

The basis upon which the 8 per cent of excess profits is proposed to be allowed is unfair. That basis is not the present value of the property of a partnership or a corporation, but the value of the property at the time it was transferred to the partnership or corporation. If, for example, two men became partners 20 years ago and contributed to the partnership \$10,000 each, making a total original contribution of \$20,000, by the ability and industry of those two partners that business might to-day be worth \$1,000,000. They would not be allowed 8 per cent upon the present value of their business or plant of \$1,000,000, but only 8 per cent upon the money originally contributed, or on the property at its value when originally transferred to the partnership; in the case I have supposed that would be 8 per cent upon \$20,000.

In a word, the excess-profit feature of this bill is unfair for the following reasons:

1. It is discriminatory.
2. It is unfair.
3. It will discourage initiative; it will prevent development of resources and industries.
4. It will favor certain classes or groups.
5. It will cause great confusion in its interpretation.
6. It fixes an arbitrary cash basis of value which, under the capital-stock tax rulings, is unsound and unreasonable.



## NATIONAL INDUSTRIAL CONFERENCE.

A conference of industrial managers of some of the largest and most important enterprises in the United States has recently been established. This conference was originated and meetings held for the purpose of discussing trade relationships and the best and most effective means of developing our efficiency and capacity to successfully compete with the industries of the world. A short time ago this industrial conference board wrote to the Finance Committee of the Senate making some comments on the bill under consideration, and I wish to put this communication in the RECORD in its entirety, because it is a calm, dispassionate discussion of this question.

The PRESIDING OFFICER (Mr. HUGHES in the chair). Without objection it is so ordered.

The matter referred to is as follows:

FEBRUARY 10, 1917.

*To the honorable the Finance Committee of the United States Senate, Washington, D. C.*

GENTLEMEN: The National Industrial Conference Board, composed of 14 national associations of industrial employers who are jointly studying and investigating important questions which have a bearing on industrial development and the conduct of business, to wit: American Cotton Manufacturers' Association, American Paper and Pulp Association, Electrical Manufacturers Club, National Association of Cotton Manufacturers, National Association of Manufacturers, National Association of Wool Manufacturers, National Boot and Shoe Manufacturers' Association, National Founders' Association, National Metal Erectors' Association, National Founders' Association, National Metal Trades Association, Rubber Club of America, Silk Association of America, and United Typothetæ and Franklin Clubs of America, begs leave to submit herewith the following observations and criticisms in regard to the excess-profit tax feature of the pending revenue bill, H. R. 20573:

The board realizes the propriety of taxing corporate income. It admits the necessity of largely increased national revenues if the Nation is to be placed in condition for national defense. It believes that representatives of national business interests should not and will not object to any fair tax, however heavy, which is necessary for national defense, but it believes it to be a duty not less than a right to object to the impractical, arbitrary, and discriminating form in which the proposed measure is cast. The pending proposal represents a growing tendency to exempt a great mass of citizens who are well able to contribute, from the pecuniary burden of government. When the nations of the world are demanding universal service, our own country ought not to inaugurate a system in which nine-tenths of the population are deliberately relieved from any direct and proportionate contribution to the national revenue. The larger the revenue required, the broader should be the base of taxation.

The excess-profits tax appears to us seriously objectionable, because—

1. It is discriminatory. It arbitrarily and invidiously discriminates against all forms of business done in corporate as distinguished from individual capacity, although individuals come into competition with corporations. It also deliberately exempts partnership profits derived from the great industry of agriculture.

2. It is a disproportionate burden upon business done in corporate form. The present State taxes upon corporate property average for the several States not less than  $2\frac{1}{2}$  per cent. With the enactment of this measure the Federal tax upon income from this same property will approximate 2 per cent. It will also twice tax corporate income derived from holdings in other corporations.

3. It will operate unfairly and against the principles of good business in that it is levied upon nominal present profit without regard to the losses of past lean years or the prospective losses of lean years to come. Good business requires that unusual profits of one period be used to equalize the losses of others. When thus equalized, the excess profit of a certain period which has been taxed may be wiped out altogether and the business even show a loss.

4. It invades the legitimate field of State taxation. The continued use of direct taxation and the ignoring of its exclusive field of indirect



taxation by the Federal Government steadily increases the difficulty of the States in raising necessary revenue. The report of the New York State Tax Commission for 1915 shows that there have been but 5 years in the preceding 25-year period when it was not necessary for the State to levy direct taxes. A proposal is now pending before its legislature to levy an income tax upon general corporations. Such a tax is now in force in Wisconsin, West Virginia, Connecticut, and Massachusetts. The Tax Commission of California has presented to the legislature a joint resolution calling for a congress of States to define a plan for the separation of State and Federal fields of taxation, to avoid the increasing friction.

5. It will constitute a direct and discriminatory tax upon our most valuable national assets—Invention, Initiative, and energy. The inventor properly looks to a high rate of profit during the life of his patent for his incentive and reward. The pioneer in shipping or foreign trade enterprise or new and untried fields of industry likewise looks to a high return during the period while high risk obtains for his inducement to risk his capital and effort. Unusual energy and ability with a small capital may produce much larger returns than moderate energy and ability with a much larger capital, and so may perform valuable public service. All these valuable public assets—Invention, Initiative, energy, and ability—are penalized by the proposed tax.

6. It constitutes an unwise and unfair discrimination against good will, which is not included in the bill under the heading of actual capital. Good will is property. It can be bought and sold. A corporation which has built up a valuable good will has added to its surplus property, its invested capital, just as truly as has a corporation with undivided profits employed in the business. To count the undivided profits, but not the good will, as capital, lays an unfair burden upon the good will and also penalizes the elements which enter into and promote good will, such as honesty, integrity, special ability, or service, which public interest requires should be encouraged.

7. Its collection will involve many serious practical difficulties, necessitating extensive and inquisitorial machinery, and lay an unduly large charge upon all corporate enterprises, successful or unsuccessful, in the shape of extra reporting and accounting. The widest variance exists in State corporation laws regarding the different elements involved by the proposed tax. The Federal Trade Commission has said that the great bulk of business in this country is conducted without a proper cost-accounting system, and without proper cost accounting profits can not be ascertained. Multiplicity of reports, increased and probably extensive revision of bookkeeping, complicated and extensive inquisitorial machinery, and wide latitude for inequity, fraud, and evasion are all necessary parts of the actual collection of the proposed tax.

All of which is respectfully submitted.

NATIONAL INDUSTRIAL CONFERENCE BOARD,  
By FREDERICK P. FISH, *Chairman*.  
By MAGNUS W. ALEXANDER, *Executive Secretary*.

Mr. WEEKS. Now, Mr. President, I am going to state a few examples which I think will demonstrate some of the criticisms I have made against this legislation. Corporations have been singled out as a fair prey for the imposition of taxes. Who compose the corporations? Under the present system very largely they are the people themselves. There are more than 100,000 stockholders, for example, in the Pennsylvania Railroad Co., and more than 100,000 stockholders in the United States Steel Co. You can no longer say because a corporation is large or important it only represents one or two or a half-dozen interests. It is a means, when large and important enough, through which prudent people trying to save something for their old age may safely invest their savings. It should be our purpose to encourage such organizations if they furnish safe investment facilities for those who generally have not had experience in investing their money with safety, and who are frequently led to put their savings in wild-cat enterprises and lose them.



Combination of the capital of small stockholders is necessary for the promotion and continuance of business on a large and economical scale for the production of the necessities of life.

In order to make great business enterprises attractive for investors they must be stable and profitable.

The greater the risk, the larger the profit ought to be. The continued addition of new taxes to the burden of corporations is bound and has begun to lessen the value of the investment in industrial enterprises.

Twenty years ago investment in railroad stocks was considered most conservative. To-day such investments are investments to be avoided. The trend of legislation, if followed, will bring the same results to industrial corporations.

Incomes of partnerships derived from agriculture or personal services are exempt hereunder. This certainly is not for the protection of the small farmer. It rather encourages combinations of investors to control large agricultural interests.

If such an excess-profits tax is to be imposed, why should it not fall upon partnerships controlling large areas and making profits in excess of 8 per cent? There are many such examples.

It is very frequently the practice for corporations located in other New England States to maintain offices in Boston. It is almost essential for them to do so in order to maintain their own selling departments. Such a corporation located in Maine would be taxed the local city taxes and the Maine franchise tax, the Massachusetts franchise tax, the city of Boston tax, the Federal income tax, and the Federal capital-stock tax.

Almost exactly that same condition would obtain in other States. Senators forget that we raise a very much greater amount of revenue in all States for local purposes than the proportion of the contribution which those States make for the support of the General Government. We go on levying taxes in Washington as if they were the only taxes imposed against our citizens, when as a matter of fact we are frequently taking from the States the only sources of revenue, or at least the main sources, they have, and are piling up taxation and indebtedness in a way which is going to bring us serious trouble unless we face the situation and stop some of the extravagance. We should adopt the budget system of government.

We can not avoid enormous expenditures in any other way, and it is up to Congress to consider that question without delay; stop this trend of unparalleled expenditures and the imposition of taxes not justified and in competition with the taxes imposed by our own States.

#### PARTNERSHIPS.

Take two cases: A and B have \$50,000 each which they invest in manufacturing raincoats—capital, \$100,000. They make \$20,000. Under this bill their exemptions would be \$5,000 plus 8 per cent of \$100,000, or \$8,000, a total of \$13,000. They would pay a tax of 8 per cent upon the excess \$7,000, or \$560.

C having \$100,000 establishes the same kind of a business next door, makes \$20,000, and is not taxed under this bill because he is operating as an individual. The smaller investors,



who are obliged to join forces in order to do business, are taxed while the wealthier man pays nothing upon excess profits.

A brokerage concern having a large capital and making large profits would be exempt under the "personal-service" clause.

The success of corporations depends to a great degree upon the personal services of their managers, and there are many instances where a small capital plus valuable personal services yields large returns on the capital invested. These concerns would be unfairly and excessively taxed under this bill. Personal services in a partnership are free from tax. Personal services in a corporation with perhaps less capital involved are taxed.

For the purpose of fixing the income tax of corporations certain returns of financial condition are demanded by the Government.

Also under the new capital-stock tax other returns are required.

From these the Government determines the value of the capital stock of corporations.

Section 202 of this bill fixes another standard of value upon which excess profits may be determined.

If the Government determines the value under the capital-stock tax for purposes of taxation—and it is presumed that value thus determined is fair—it should accept its own valuation for the purpose of determining what constitutes excess profits.

Government appraisals of value fixed for determining one tax should be accepted as decisive and should not vary in the same year.

Business concerns to-day are hampered by the numerous requirements for returns and by the arbitrary demand of Government officials demanding changes in accounting and differing methods of fixing valuations. Uniformity would tend to economy both in the private and the public service.

Following the same methods of determining value in the capital-stock and excess-profits taxes would remedy the discrepancy and discrimination which this bill raises and would allow a consideration of good will—the most valuable asset of many partnerships and corporations.

Take the case of a newspaper with \$200,000 originally invested. For 10 years dividends are not paid. As a part of expenses large sums are paid out of earnings in advertising, in increasing circulation, in paying special writers. A strong personality controls the editorial policy. The paper gains a reputation, a circulation, and at the end of 10 years is worth \$400,000, a value built on personal service and the foregoing of dividends. Its presses and physical assets for which cash was paid may be worth not more than \$150,000, though the total value of the business may be worth two or three times that sum. The money earned and spent for circulation, advertising, special writers, and so forth, has built up a value which the Government taxes under the capital-stock tax, but would decline to consider under this act.

It will thus be seen that the bill operates to exempt personal services in one case, but refuses to make allowance for them in another.

To show the difference, take the case of a corporation, a partnership, and an individual, each having a capital of \$100,000, which makes an annual net profit of \$50,000:

Actual capital invested-----	\$100, 000
Net profit-----	50, 000
Exemptions allowable under proposed law:	
Eight per cent net profit on actual capital-----	\$8, 000
Additional exemption-----	5, 000
	<hr/> 13, 000
Sum on which "excess-profits" tax will be levied-----	37, 000
"Excess-profits" tax of 8 per cent-----	2, 960
In the case of a corporation there would be an additional tax of 2 per cent on net profits in excess of \$5,000, amounting in the above case to-----	900
Total tax-----	<hr/> 3, 860

In addition each partner in a partnership or each stockholder in a corporation must pay an income tax on all income in excess of \$4,000. This income tax was greatly increased last October, and yet an individual conducting that business would only have to pay the income tax which is now a part of the law.

Take the case of a partnership or corporation in which the principal owner has secured a patent on an invention and has from time to time made improvements upon it. In the course of many years it has acquired great value through his personal efforts. Comparatively little cash has been paid in. This value is taxed under the income tax and capital-stock tax laws, but no credit is given to it under the proposed bill, because the greater part of its value does not rest upon paragraphs (1), (2), or (3) of the proposed section 202. No allowance for losses in years immediately preceding is made. If it is impracticable to go back beyond one year, why not accept, for the purpose of determining the exemption, the fair average value of capital assets for the preceding year?

Mr. President, there was called to my attention the other day a case of a corporation which has not earned and has not paid dividends for seven years, and yet during the past year, having developed a quality and class of goods for which there was great demand, it made 40 per cent on its capital. That is only an average for the eight years of 5 per cent. Five per cent is certainly not an excessive profit for stockholders going into a manufacturing concern; and yet under this bill that corporation and its stockholders are going to be taxed on their proportion of the 40 per cent, which really belongs to them, and which should and would be reserved by any prudent concern to try to continue dividends during a term of years.

The States have depended upon direct corporation taxes for their revenue.

The United States Government is steadily encroaching upon this field with its income, inheritance, and capital-stock taxes.

The logical result of this Government exaction of taxes and control of accounting and valuations will be national incorporation laws, to which so many States object.

Let me take other examples showing the unfairness and inadequacy of this law.

The Massachusetts franchise tax is about 1.94 per cent of the value of the capital stock less real estate and taxable property,



both within and without the State, and the minimum of one-tenth of 1 per cent less local tax.

Now, take the three cases of corporations having, respectively, a capital of \$500,000, \$1,000,000, and \$2,000,000.

Cases.	Capital, \$500,000; property valued at \$300,000.	Capital, \$1,000,000; property valued at \$300,000.	Capital, \$2,000,000; property valued at \$300,000.
Property tax (local), about \$18 per thousand.....	\$5,400	\$5,400	\$5,400
Massachusetts franchise, tax 1.94 per cent.....	3,880	13,510	32,910
Federal income tax of 2 per cent.....	2,000	2,000	2,000
Eight per cent excess-profits tax.....	4,800	1,600	.....
Total.....	16,080	22,510	40,310
Tax to profits, per cent.....	16.08	22.51	40.31
Earnings to capital, per cent.....	20	10	5

The above is based on the assumption that the capital stock is worth par. Of course, in the first case with 20 per cent earnings it would be worth more, just as in the third case with 5 per cent earnings it would be worth less.

Now, there are three concerns earning exactly the same amount of money, operating in the same kind of business, having different amounts of capital, and yet all will be taxed differently under this proposed law. That condition applies to New Jersey as well as to Massachusetts.

Taking a New York corporation, making net profits of \$100,000, the New York franchise tax is based on the capital stock employed within the State. If dividends of 6 per cent or over are paid, the tax is one-fourth of a mill for each 1 per cent of dividends levied on each dollar of stock. If dividends are less than 6 per cent, or assets do not exceed liabilities, or stock averages to sell below par, then three-fourths of a mill for each dollar of capital. With dividends less than 6 per cent and assets exceed liabilities, or stock averages above par, then 1½ mills is the tax.

Taking the corporations to which I have referred in the case of Massachusetts, one having \$500,000 capital, another \$1,000,000, and the third \$2,000,000 capital, and earning profits of \$100,000, the results are indicated in the following table:

	Capital \$500,000, dividend 7 per cent.	Capital \$1,000,000, dividend 5 per cent.	Capital \$2,000,000, dividend 2 per cent.
New York State franchise tax.....	\$2,625	\$3,750	\$3,000
Local tax about \$17 (property \$300,000).....	5,100	5,100	5,100
Federal income tax.....	2,000	2,000	2,000
Excess-profits tax.....	4,800	1,600	.....
Total.....	14,525	12,450	10,100

In other words, under this excess-profits tax the smaller concern would pay three times as much as the one twice as large,

and the concern four times as large would pay no tax at all. You are not getting at the kind of people you think you are going to reach by enacting this legislation. To a great extent the very rich man is going to escape this taxation, but you are taxing the small stockholder in all of these corporations.

One of the features about this that will cause a great deal of difficulty and cause a great deal of unfairness, and has caused a great deal of difficulty and is not remedied in the old income tax, is the question of the valuation of the depreciation that may be allowed.

In the cotton industry in Massachusetts there has been much difficulty in this respect relating to determining valuation. Many corporations, such as cotton mills, some of which have been in operation for nearly a hundred years, under the old method of bookkeeping would carry perhaps a building worth \$200,000 or \$300,000 on their books at \$100,000. Then the question came up as to how, when the income tax came along, they could determine their valuation for the purpose of making their depreciation, and an inspector from the Treasury Department would come along and say they must change their bookkeeping methods.

Another year another inspector would come along and find something wrong in their bookkeeping methods. Several of the New Bedford cotton mills, for example, are now endeavoring to work out with the Treasury Department certain definite forms of valuation; but the difficulty resulting from this question of what is a fair valuation of property can easily be seen. A mill which is in successful operation is worth a great deal of money; but, if it is not profitable or if it is closed down, its real estate is worth substantially nothing. In New England, one of the favorite loans is on real estate; in fact, a considerable portion of savings banks' deposits is loaned on real estate in Massachusetts; but loans are seldom made on manufacturing plants, because their success depends so largely upon the intelligence and ability of the management; and yet in this bill we are giving no credit at all to such intelligence and ability.

Incidentally, to show the scope of this proposed law and the army of people that will be required to enforce it, producing, in my judgment, a cost of collection out of all proportion to the amount of money collected, there are 366,443 corporations making returns to the Internal Revenue Bureau now, of which 190,911 were found to be subject to the income tax. Quite likely they will also be subject to the excess-profits tax. The Finance Committee of the Senate estimates, I understand, that there will be 50,000 partnerships that will come within the scope of this law. I should think, if the committee's estimate had been 500,000 partnerships they would have been a great deal nearer right. I doubt if even that will represent the number; but if any one can imagine the expense, the time, and the difficulty of examining all these concerns, he will readily understand that the cost of carrying into effect this law is going to be unreasonably large.

Here are more examples to show the unfairness and the unevenness of the application of the law.

Another instance which will show the unfairness of this excess-profits tax is that of John Wanamaker, who is conduct-



ing an enormous business in Philadelphia and New York as a private individual. He will not be taxed under the provisions of this bill, and yet it is probable that he has one of the most profitable businesses in the United States.

In immediate competition with him are many concerns in every city in the country, the names of which will come readily to the minds of any Senator, and they are partnerships or stock companies, and they will be taxed either as partnerships or as corporations.

Take another more extreme example: A New York broker reported to be close to the administration stated recently to the "leak" committee that he made \$476,000 because an English statesman used the word "but" in a recent statement. Not a cent of that \$476,000 will be taxed under this proposed law. If the man who profited by his own cleverness in taking advantage of the situation which he foresaw had had a partner, he would have been taxed. No broker operating as an individual will be taxed under this law.

If legislation must be passed along the proposed lines, then I submit that the tax of 8 per cent should be based on net sales and not on capital, as this latter method would be inequitable. Owing to the varying nature of business the capital requisite for a stated volume of sales varies widely. For example, it might require a capital of \$100,000 to produce sales of \$100,000 in one line, and in another line the same capital might be sufficient to produce a very much larger volume of sales, say, for instance, \$800,000.

With a tax of 8 per cent on capital as proposed the first-named company would be allowed 8 per cent profit on sales before the tax would apply, whereas the latter company would be allowed only 1 per cent profit on sales. Is this fair? This is no fanciful illustration, and I submit that it clearly shows that net sales and not capital is the only fair basis.

The bill bears with particular severity upon partnerships, because the net income of such is arrived at before distributing any remuneration to the partners for their services, whereas corporations are entitled to charge as expense the salaries paid to the general officers. Moreover, the fact that a tax is laid upon an income over 8 per cent on actual cash investment bears heavily upon a partnership as compared with a corporation, because the corporation may have issued stock against intangible assets, such as good will, patents, and so forth, and the age of the corporation may be such that it will not be practicable to determine the actual cash invested in the business except to take book values. In the case of a partnership not having issued stock, no value has been given to the good will or payable assets which they have declared as a result of the growth of its business. Their capital invested will, therefore, stand at the actual amount invested in the business or at the current cash value of tangible assets.

Take, for example, two corporations engaged in cotton and woolen manufacturing. A corporation owns its real estate and machinery and is capitalized at \$80,000. B corporation rents its real estate and machinery and is valued at only \$50,000, and yet it may be a third or a half larger in its manufacturing capacity. Suppose their profits are equal and that they make



\$20,000, of which \$5,000 is exempt; omitting the corporation tax, their taxes would be as follows:

A corporation, having a taxable profit of \$15,000—\$6,400, being 8 per cent of capital or actual cash and assets paid in, would have left a taxable amount of \$8,600, which, at 8 per cent, would be \$688.

B corporation, having a taxable profit of \$15,000—\$1,200, being 8 per cent of its capital or actual cash and assets paid in, would have left \$13,800, which, at 8 per cent, would require \$1,104 for taxes.

One of the unfortunate developments connected with this legislation, it seems to me, has been the palpable sectional emphasis given it by those responsible for its promotion. The leader of the majority party in the House of Representatives, who is an old friend, and whom I should hesitate to criticize even if the rules and propriety did not forbid it, in discussing the bill called to the attention of the country a rather unfortunate expression, which emphasizes quite forcibly the attitude of the Democratic Party. He is said to have made this statement:

I think most or the greater part will be levied north of Mason and Dixon's line. All these fellows who live in States that will pay a large part of this tax can get rid of the location argument by removing down to my town of Scotland Neck and pay the tax from there.

I do not know that he made that remark, but such statements, coming from a responsible source, create a feeling which, I contend, is bad for the country.

During the debate in the House it was suggested by those responsible for the legislation in defending the unfair distribution of the taxation imposed that certain of the Northern States should be willing to pay a majority part of the tax because a large portion of the money thus collected would be expended in those States, and Mr. KITCHIN used this language:

Take the Fore River Co. in the city of Boston—

Meaning, I suppose, the Fore River Co. located in Quincy, Mass.—

that will get more of these appropriations than the entire South and 15 Western States.

That seems on its face a reasonable statement, and yet let us examine it from another viewpoint. The last first-class battleship constructed by the Fore River plant was the *Nevada*. This vessel cost approximately \$11,000,000, and required three years and four months to construct. Under the existing corporation-tax law the industries of Massachusetts paid an income tax of \$2,858,713 during the fiscal year 1916. In three years and four months, the time required to build the *Nevada*, those industries under the present law will have paid approximately \$10,000,000 in income taxes, an amount practically equivalent to the total cost of the *Nevada*. In other words, the industries of Massachusetts—and if the personal income tax of that State were included the figures would be very much larger—will have paid the National Government in one form of taxes nearly enough to pay the cost of a battleship for the privilege of having it constructed in a Massachusetts shipyard. I think it entirely possible that the State of Massachusetts, if it could be relieved of this tax, would be willing to have the next battleship constructed in Mr. KITCHIN's State or any other State which is not bearing a fair share of the burdens of government.

Indeed it is not unreasonable to call to the attention of the Senate the fact that there is no hesitation on the part of States in other sections of the country, and especially in the South, in which section the dominant party now obtains its political power,



to spend money collected in the northern part of the country. The slightest investigation—and I will not go into it because I do not believe in making sectional arguments—will demonstrate the fact that the North is paying on every dollar of its wealth five or six times as much as our Southern States and that a much larger percentage of the appropriations made by the Government in proportion to the wealth of the States goes to the sections paying the lesser tax.

As I have stated, the State of Massachusetts paid \$2,858,713 in corporation taxes during the fiscal year 1916, an amount which exceeds by a considerable figure the entire tax paid by the nine Southern States of Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. It is estimated by the Democratic leaders that 90 to 95 per cent of the new excess-profits tax will be levied upon the Northern States, so that it is entirely probable that the State of Massachusetts, under the proposed law, will pay more toward the proper protection of the country and general rehabilitation of the Federal Treasury than the entire South. The States of New York and Pennsylvania already pay many times more in Democratic direct taxes than the entire South, and under the new law the proportionate difference will be even more marked.

I would not raise this argument, Mr. President, if it had not been made in another House and in public discussions. I simply want to point out the facts as they bear on the case.

The Democratic leader in the House contends that the North should be willing to pay this great proportion of the preparedness expenditures because the demand for protection comes from that locality. But he does not suggest that a sufficient tax should be imposed upon the industries of the States of Texas, New Mexico, and Arizona to defray the expenditure of \$162,000,000 in protecting those States from incursion by Villa; nor does he suggest that a tax of \$11,000,000 should be laid upon the industries of the State in which will be located the armor-making plant; nor that \$21,000,000 shall be imposed against the State in which the nitrate plant will be situated. Those expenses are to be met by the issuance of bonds which the administration, no doubt, will expect the North to purchase out of any funds remaining after it has paid all of the other Democratic taxes.

No fair-minded man would contend that it would be fair to impose a tax of \$162,000,000 upon the industries of Texas merely because the United States was threatened with attack at that particular point, and yet we have found a great many prominent Democrats ready to champion the theory that the North should be made to pay practically the entire cost of national preparedness because it is from there that the country would most probably be attacked. No foreign enemy will ever declare war against the State of New York or the State of Pennsylvania or the State of Massachusetts. Such a declaration, if it should ever come, would be against the entire United States, and no section of the country should be exempt from paying its proper share of the cost of preparedness against such a day.

The four States of New York, Massachusetts, Pennsylvania, and Illinois pay \$30,000,000 of corporation taxes, which is over



one-half of the total corporation tax of the country. The same States pay \$45,000,000 of individual income taxes, which is about two-thirds of the total income tax, and it is undoubtedly true that the same States will pay a proportional amount of this proposed tax. The net result of this form of taxation is extremely harmful. Only 330,000 people directly pay an income tax, which is less than one-third of 1 per cent of our population, and a comparatively small proportion of the people pay the corporation tax and will pay this excess-profits tax directly. As long as one-third of 1 per cent of our population are paying this tax there is nothing to prevent the other 99 $\frac{2}{3}$  per cent clamoring for additional appropriations, and the average politician is going to listen with approval to that clamor. If those who insist on following such a course were honest enough to explain to the people that they are not standing their share of this taxation, quite likely this clamor would cease.

In the section of the country which I in part represent there has developed a frugality in saving money, and this has been promoted by the mutual savings bank system, which is one of the prides of Massachusetts and contiguous States. In Massachusetts there are \$928,000,000 deposited in savings banks, which represents deposits made by 2,349,207 depositors; in other words, substantially two-thirds as many depositors as there are people in the State. Necessarily there are some duplications among these depositors; that is, a depositor may have accounts in more than one bank—sometimes in several banks—but I think it is fair to assume that from one-third to one-half the people of Massachusetts have deposits in the savings banks. Those banks invest in real estate mortgages and in certain classes of securities, like railroad bonds and other profit-making corporations. In many States the laws surrounding the investment of savings funds are not as stringent as in Massachusetts. The money of some of these banks may be invested in securities directly affected by this 8 per cent excess-profits tax. Does anyone think that if these frugal people, who have saved between three and four hundred dollars each, were told they were to be taxed in this imprudent and unfair way in order to maintain the Government, that they would not make a protest? The trouble is that the tax does not fall directly on them, and they do not understand it. Instead of the clamor being against the so-called rich corporation it would be to protect the investments of those who, to a large extent, are the wage earners and savers of money and who by their own efficiency are demonstrating the course the Government should follow.

I ought to add, in the case of the Massachusetts savings banks, that deposits are not taken in amounts larger than \$1,000; and when the deposits with accrued interest amount to \$1,600 the interest stops, which indicates the comparatively small amounts that can be deposited by any one person.

#### BOND ISSUES.

Mr. President, it should be a fundamental rule in governmental financial operations that all current expenses should be paid from the proceeds of the annual tax levy, and that if loans are issued their duration should be within the life of the object for which the appropriation is expended. The ex-



penditures provided for in this bill are very largely of a contrary character to ordinary expenses of government, and it is unfair to the taxpayer of to-day to require him to provide for improvements which are going to be equally beneficial to the taxpayers of future years. Therefore I have provided in the proposed bond issue I have introduced that it shall extend over a period of 20 years, which is quite within the life of most of the objects for which the expenditures are made. I do not wish it to be understood, Mr. President, that I at all approve all of these expenditures. I voted against most of them—the bill to establish a nitrate plant, the shipping bill, and others—but I assume that money is going to be appropriated to provide for the purposes for which legislation has been adopted, and therefore, if that is to be done, I want it done in this way.

The Alaskan Railway, with ordinary annual appropriations for maintenance of way, will be in quite as good condition 20 years from now as to-day. The life of any ship which may be purchased under the existing law will easily be from 20 to 30 years, and ships are now performing good service which are much older than the maximum limit I have suggested. Even battleships are kept on the rolls as first-class ships for a period of about 20 years. Therefore substantially all of the purposes for which we are making provision will be equally material to the people for at least 20 years, which is the life of the bonds I propose.

Having reached that conclusion, another important question is to determine the character of bond. The United States Government has never issued a serial bond. Its bonds issued after the Civil War were intended to be retired by sinking-fund provisions. For many years this policy was carried out by using surplus revenues for that purpose, and as early as 1890 the debt had been reduced from about two and a half billions to substantially a billion dollars. No appropriations for the sinking fund, however, have been made in recent years. I presume one reason for this has been that the estimated revenues were not sufficient to provide for these appropriations. Then another problem has entered into the question in recent years of enough importance to prevent the operations of the sinking fund. I refer to the necessity for bond-secured circulation issued by the national banks.

As time has gone on practically all of our national debt has been used as a basis for circulation and is being used for that purpose to-day. The passage of the Federal Reserve act has removed the necessity for the continuance of issuing that kind of circulation. There is no reason, therefore, in times of ample revenues, provided reasonable economy is used, why the entire national debt should not be paid, and I hope when the present difficulties have been passed that such a course will be consistently followed. It is not an element of strength to a country to have a considerable outstanding indebtedness; it is an element of financial and physical weakness. A country without debt is in much better position to defend itself or wage active hostilities than a country which will be embarrassed by outstanding indebtedness, and in this respect alone the United States will be in a position of great strength as compared with other first-class nations at the end of the present war.



The finances of a municipality, a State, or a nation do not materially differ from those of the private citizen. No private citizen could acquire a good financial reputation if he constantly renewed his indebtedness when it matured. In other words, if the individual or copartnership repeatedly renews indebtedness, it is taken as an indication that they have not sufficient capital to conduct their business operations and their credit is greatly impaired. The sound business concern is the one which borrows temporarily and goes out of debt at some time during its annual operations. The only indebtedness of a relatively permanent character which is justifiable is that required in the large extension of a plant, which might be covered by a mortgage, but that mortgage should be gradually liquidated. Even that kind of indebtedness is an embarrassment to corporations if they wish to go into the market to borrow for temporary purposes. This argument is equally applicable to municipalities, States, or nations, and most local communities in recent years have recognized the necessity of extinguishing indebtedness by establishing sinking-fund provisions, which have generally operated to carry out this purpose; but, as in the case of our National Government, there have been frequent deliberate violations of sinking-fund requirements.

A few instances will illustrate how possible it is to operate sinking funds honestly and yet not obtain the statistical results which seem probable. As late as 1869, in England, a committee of Parliament made an investigation of sinking funds and made a report to this effect: Between 1785 and 1829 England borrowed £330,000,000 at about 5 per cent interest in order to pay the same magnitude of indebtedness at  $4\frac{1}{2}$  per cent interest. This policy by which a debt of  $4\frac{1}{2}$  per cent was converted into one of 5 per cent meant an annual loss of interest of £1,627,765, extending over a period of 43 years, or a total of nearly \$340,000,000.

During our Civil War, the issue of legal-tender notes made under the act of Congress of 1862 was fortified with a sinking fund of 1 per cent. During the war no attempt was made to fulfill this pledge, as the Government was continually borrowing and adding to its total indebtedness.

For many years the State of Massachusetts outranked every State in the Union in the magnitude of its State debt. September 30, 1913, its funded debt was \$117,838,412, and its sinking funds at that time were \$34,674,498. Incidentally, the very statement of the magnitude of that sinking fund shows the importance of its being well handled and the difficulty of its being entirely invested all of the time. At this time the gross debt of the State, counties, municipalities, and metropolitan district is practically \$400,000,000. This debt became so startling that among other phases of it carefully investigated and studied the question of the operation of sinking funds was taken up. Although it has been optional in Massachusetts since 1882 to issue serial bonds, this study of sinking funds and their operation was sufficient to bring about the passage of an act in 1913 prohibiting sinking funds for municipal loans, making the serial bond compulsory for all such loans and requiring all such indebtedness to be issued on the same basis as had been adopted by the Commonwealth in an act passed in 1906.



In this respect, as in most others, Massachusetts has demonstrated that it is one of the most progressive States. The sinking-fund provision, as far as Massachusetts is concerned, has become a dead letter.

At the constitutional convention in New York year before last this question of a serial bond issue was given consideration. At that time there was an indebtedness, State and municipal, in New York of something like \$2,000,000,000 gross. The constitutional convention unanimously adopted the proposed change in the matter of issuing serial for sinking-fund bonds, and it would have become the basis of procedure in that State if the constitution had not been defeated. I think I should say, however, that during the consideration of this constitution and the arguments relating to it no objection was made to this provision.

Mr. NORRIS. Mr. President——

Mr. WEEKS. I yield to the Senator.

Mr. NORRIS. I am exceedingly interested in what the Senator is now stating in regard to the issue of bonds. It may be that in some part of his address he is going to answer the question I wish to ask. If he is, I hope he will not be diverted by answering it now, but I should like to ask him to give us this information. In a comparison between serial bonds and the other kind, what has been the result in the way they have been sold on the market? I mean, has there been any loss in the sale of serial bonds as compared to other long-time bonds?

Mr. WEEKS. I think I refer to that briefly later on; but I will say now that when serial bonds were first issued there was some prejudice against them because they matured at different periods, and some of them were too short to be considered a good permanent investment. In these days, however, when bonds are required to be deposited for the protection of postal savings banks deposits, when so many banks invest money in short-term bonds and short-time notes, when the Federal reserve banks could and would buy them, I am told by very many bond men whom I have consulted that a serial bond sells as readily as a sinking-fund bond.

Recently the Hon. Charles F. Gettemy, director of the bureau of statistics in Massachusetts, made an investigation involving calculations of some twelve hundred municipal sinking funds. This investigation revealed net apparent deficiencies in 40 cities and towns aggregating \$1,794,391.58, and net apparent surpluses in 47 cities and towns aggregating \$2,855,192.47. This was followed by the legislation to which I have referred.

Within a year an investigation in New York has demonstrated the fact that the citizens of that State have been taxed for sinking funds nearly \$19,000,000 in excess of the amount required under a scientific bond-amortization plan. This situation is not due to any one administration, but is the result of the operations of four recent State governments. It was estimated that this accumulation of unnecessary money would have amounted before the maturity of the bond issues outstanding to \$234,000,000.

Last year the city of New York made a sale of \$40,000,000 50-year 4½ per cent sinking-fund bonds and \$15,000,000 1 to 15 year 4½ per cent serial bonds. Mr. Alfred D. Chandler, of Brookline, Mass., to whom I am indebted for much of my in-



formation relating to this particular subject and who has given it more complete consideration than any person in this country, makes this comment on this sale of bonds. As an illustration of the difference in the results obtained from sinking-fund and serial bonds, he said:

Such an issue of sinking-fund bonds will ultimately cost New York City \$16,726,320 more than if issued in serial form, assuming that the sinking-fund earnings would for half a century average  $3\frac{1}{2}$  per cent, or \$19,182,200 more if the sinking-fund earnings averaged 3 per cent, which is the basis of computation adopted by the State of New York.

If the \$40,000,000  $4\frac{1}{4}$  per cent sinking-fund bonds were exchanged into serial bonds at an increase of  $\frac{1}{8}$  per cent, or  $\frac{1}{4}$  per cent, or  $\frac{3}{8}$  per cent, or even  $\frac{1}{2}$  per cent, the difference in favor of the serials would be for the 50 years as follows:

	Sinking fund, 3 per cent basis.	Sinking fund, $3\frac{1}{2}$ per cent basis.
As serials at $4\frac{1}{4}$ per cent.....	\$19,182,200	\$16,726,320
As serials at $4\frac{3}{8}$ per cent.....	18,067,200	15,451,320
As serials at $4\frac{1}{2}$ per cent.....	16,632,200	14,176,320
As serials at $4\frac{5}{8}$ per cent.....	15,357,200	12,901,320
As serials at $4\frac{3}{4}$ per cent.....	14,082,200	11,626,320

Mr. WADSWORTH. Will the Senator yield merely for me to make a comment? In the discussion of the proposed amendment of the New York constitution having relation to serial bonds taking the place of long-time sinking-fund bonds, it was estimated that were the long-term sinking-fund bonds now issued or having already been issued by the State of New York changed into serial bonds, short-time bonds, by the time of the maturity of those bonds, bonds issued it will be remembered to the amount of \$100,000,000 for the building of highways and many million dollars worth of canals, the State of New York would thereby save \$40,000,000 in taxes.

Mr. WEEKS. I think I have some figures here which I will give and which will confirm the statement just made by the Senator from New York.

If the State of New York had issued its 50-year sinking-fund bonds, which now equal, principal and accrued interest, \$601,071,144, in serial form, the total difference in their cost in favor of the latter method, adopting the New York State basis of 3 per cent for its sinking-fund earnings, would have been \$89,977,262. If the respective outstanding bond rates, which are 3 per cent, 4 per cent,  $4\frac{1}{4}$  per cent, and  $4\frac{1}{2}$  per cent, had all been increased one-eighth of 1 per cent and the bonds issued in serial form, the difference in favor of the serial method would be \$83,339,730. If the rates had been increased one-fourth of 1 per cent, the difference in favor of the serial method would be \$76,525,535. If increased three-eighths of 1 per cent, the difference in favor of the serial bond would be \$69,799,970. If increased one-half of 1 per cent, the difference would be \$63,074,855, and even if the sinking fund could earn 4 per cent, the difference in favor of the serial method would range from forty to sixty-five millions of dollars.

If any other arguments were necessary to determine the desirability of a serial over a sinking-fund bond we could find impressive examples enough to justify the statement that there has been and is the greatest recklessness in the management of



sinking funds. This is not alone due to the fact that they are not as economical as the serial method, but that they frequently are not used at all. This contention is verified in the case of our own Government.

The sinking-fund provisions applying to our outstanding bonds date back as far as 1862. The law reads as follows:

Revised Statutes, section 3688. There is appropriated annually, out of the receipts for duties on imported merchandise, a sum for the payment of the public debt equal to the interest on all bonds belonging to the sinking fund.

Revised Statutes, section 3689. There is appropriated, out of any moneys in the Treasury not otherwise appropriated, for the purposes hereinafter specified such sums as may be necessary for the same, respectively, and such appropriations shall be deemed permanent annual appropriations.

Sinking fund. Of 1 per cent of the entire debt of the United States, to be set apart as a sinking fund for the purchase or payment of the public debt, in such manner as the Secretary of the Treasury shall from time to time direct.

That law is now on the statute book, and yet no attention whatever is or ever has been paid to it, except to apply to the payment of our indebtedness the surplus revenues the Government might have from year to year. This surplus was very large during the period immediately after the Civil War and for 25 years thereafter, and it was in that way that the indebtedness accruing during the Civil War was met.

Public sinking funds, as I have stated, have proved to be too precarious for sound finances, notwithstanding the establishment of such funds in connection with our municipal, county, and State indebtedness in the United States. Scalings down and interest defaults are reported to have exceeded a billion dollars, and to-day eight States of the Union are in default, principal and interest, to the extent of more than seventy millions of dollars. Legislators have been dilatory and irresponsible to this subject, as is witnessed by the failure to take action by Congress itself. Thirty-one years elapsed in Massachusetts between the permissive and obligatory legislation relating to serial bonds, and only recently has the second State taken any action on this subject.

The sinking funds of New York State amount to more than \$40,000,000; those of New York City to more than \$370,000,000. Theoretically such funds are promptly and continuously invested to yield a rate of interest above the usual bank-deposit rates, but actually millions of dollars of New York City's sinking funds are uninvested, amounting recently to \$25,969,761. The average uninvested amount of New York City's sinking funds during a year's time has been more than ten millions of dollars, which means a material loss of interest, and which, of course, subverts the sinking-fund principle.

One of the first recognitions of the desirability of serial payments is found in the famous codicil to Benjamin Franklin's will, in which he left to the cities of Boston and Philadelphia \$5,000 each, contemplating the investment thereof for two centuries, the income in part to be loaned to young married artificers, who were to repay "with yearly interest one-tenth part of the principal," which is exactly the serial-bond method.

Speaking of the New York City debt, the comptroller of that city recently stated that a 50-year \$50,000,000 sinking-fund loan would show a difference between the serial and sinking-



fund basis of \$73,663,750 in favor of the serial system. It has been carefully estimated that if \$1,000,000,000 of the New York City debt had been issued in serial instead of sinking-fund form, assuming the term to be 50 years at 4 per cent, the difference in the interest account between the two forms would amount to the amazing sum of \$980,000,000.

So definitely has the correctness of this great difference been worked out that the mayor of Boston has recently petitioned the legislature to authorize the city of Boston to exchange serial bonds for the outstanding bonds of the city against which there is a sinking fund, and there is a bill pending before the Legislature of Massachusetts authorizing the Commonwealth and all municipalities in the State to exchange serial bonds for outstanding sinking-fund bonds.

In a statement before a committee having this matter in charge, Mr. Chandler recently said:

"Of the outstanding \$200,000,000 or more of sinking-fund bonds maturing between 1935 and 1958, about \$100,000,000 have an average duration of about 30 years. Assuming that only one-half of this \$100,000,000 or \$50,000,000, are exchanged into 30-year serials, the difference in the interest account in favor of taxpayers would be (assuming the same rates per cent of interest) about \$27,000,000 and crediting the sinking funds with the safe estimate on such long time as earning  $3\frac{1}{2}$  per cent, the difference in the actual cost to the taxpayers in favor of the serials would be about \$5,250,000."

Therefore, if the Massachusetts indebtedness had an average maturity of 30 years from date and it could be refunded into serials bearing the same rate of interest, there would be a saving to the taxpayers of the State on this \$200,000,000 of indebtedness between now and the final liquidation of the debt of about \$21,000,000. It is significant that no opposition whatever appeared against this legislation at the hearing given on this subject by the committee of the Massachusetts Legislature.

I have not had the time to figure the saving which might be made on the present outstanding Government indebtedness, if it were refunded into serial bonds. Indeed, I am not quite sure I could do this with accuracy, but I intend to have it done by experts so that there can be on record a complete demonstration of the desirability of changing our present indebtedness into serial form and gradually liquidating it. There is no reason why this should not be done, and from the standpoint of business prudence there is every reason why such action should be taken.

If that is true, what a piece of folly it would be to issue Panama Canal bonds or any other bonds on any other basis than as serials. As far as I know, this subject has not heretofore been given any consideration by Congress, but it will continue to appear from time to time until we have taken some action. At some later date I shall hope to submit to Congress a complete demonstration of what may be done with the national debt if such a policy is followed.

A somewhat careful investigation indicates that nearly every authority on the issuing of bonds prefers the serial to the sinking-fund method. M. Trinquat, a noted French writer on this subject, stated in 1899 the manifestly sane proposition



that the only way of extinguishing debt, for a State as for an individual, is to use the revenue above the expenses, and that when the public frees itself from its obligation to pay its debts at maturity it encourages the incurring of new debts.

That is exactly what we are doing. We are not paying any of our debts. We issue bonds from time to time under different forms, and when those bonds mature we refund them by issuing others. The debt will keep on accumulating, and if we do not take some steps to liquidate it as it matures, at least paying it by annual installments, as I think should be done, we are going to have piled up a great volume of indebtedness without any prospect of its payment.

The French writer to whom I have referred quotes Ricardo as saying that "sinking funds rather tend to encourage expenditure than to diminish debt." Another writer, speaking of indebtedness, says that a sinking fund "acts on the public as a narcotic," and "the confidence placed in the efficacy of such methods has contributed to ease the alarm which the magnitude of the public debt would otherwise produce."

Mr. MacPherson, a leading member of the Institute of Chartered Accountants of Ontario, Canada, recently in a statement pronounced "the day of the sinking fund as past," and that in his judgment it was a curse to the average municipality, insisting that debentures should be issued on the serial basis.

Mr. J. Hampden Dougherty, a member of the charter commission for a new charter for New York City, recently wrote:

The theory of sinking funds as security for the payment of public debts has become obsolete \* \* \*. The commission of 1908 favors the abolition of all sinking funds.

And goes on to argue that the city debt of New York should be re-funded.

While the provisions of the sinking fund have been considered an abundant safeguard, experience has shown that there have been many exceptions to the rule. This is particularly true in the case of railroad indebtedness, and there have been numerous instances of either dishonesty or ignorance in the application of the sinking fund provisions. For example, I have referred to the fact that New York City within a few years had been taxed for sinking-fund provisions \$19,000,000 more than the sinking fund required. In 1880 the Boston sinking funds were despoiled of \$82,000. In 1904 a commission reported that \$292,000 had been taken from the Boston sinking funds to pay current expenses. In 1909 the sinking fund of the city of Lynn, Mass., was reported to be \$400,000 short. That does not mean speculation, but that there was not enough in the sinking fund to pay the indebtedness by that amount when it matured. The funds in that case, I understand, were used for current expenses.

In the city of Chicago there has been a very general practice of using sinking funds for current expenses. One of the results of commission administration in Des Moines, Iowa, has been supposed to be its good financial record, and yet an expert analysis of Des Moines's finances recently made demonstrated a shortage in its interest and sinking fund appropriations of \$438,827.77, and the investors affirmed at that time that the new city government had recently made a levy which should have been 5.9 mills for this purpose but was only 2.6 mills.



It can be seen very easily why that would be done. It reduces taxes and gives that additional amount of credit to those responsible for levying the necessary taxation to carry on the government. It is charged that the city administration has systematically evaded its obligation, and in order to keep down its tax rate an insufficient amount has been levied for sinking-fund purposes.

One of the few so-called authorities who has doubted the advisability of giving up the sinking funds is a Mr. Turner, a lecturer at the municipal school of finance in Manchester, England. In Mr. Turner's own illustration of the application of different methods of paying indebtedness he uses an example of a million pounds borrowed for 10 years and shows the following results:

*Total cost.*

(1) Installment method -----	£1, 275, 000
(2) Annuity method -----	1, 295, 100
(3) Sinking-fund method (5 per cent basis) -----	1, 295, 100
(4) Sinking-fund method (3½ per cent basis) -----	1, 352, 000

In other words, the serial method produced the best result. The annuity method, which means paying off not only one-tenth of the total indebtedness but one-tenth of the total interest, costs £20,110 more than the serial method. The sinking-fund method, figuring the sinking fund at 5 per cent, costs exactly the same amount; but figuring the sinking fund at 3½ per cent, the cost is £77,000 more than the serial method.

I wish to submit a table showing the results of the serial and sinking fund methods in the case of a million dollars borrowed at 3 per cent and 4 per cent, and ranging from 20 to 50 years. It is a complete demonstration of the value of the serial method. I ask unanimous consent to insert herewith the statement to which I have referred.

The PRESIDING OFFICER (Mr. LEE of Maryland in the chair). Without objection, it is so ordered.

The matter referred to is as follows:

*Serial-bond and sinking-fund methods contrasted.*

\$1,000,000 at 3 per cent. Difference in interest in favor of serial bonds.			\$1,000,000 at 4 per cent. Difference in interest in favor of serial bonds.		
20 years.	40 years.	50 years.	20 years.	40 years.	50 years.
\$285,000 .....	\$585,000	\$735,000	\$380,000	\$780,000	\$980,000

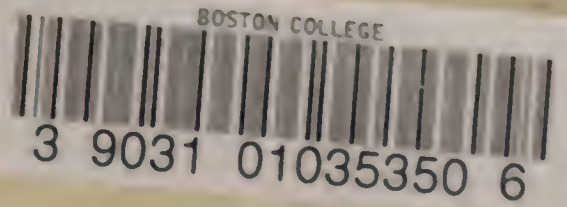
Sinking fund.	Difference in cost in favor of serial bonds.			Difference in cost in favor of serial bonds.		
	20 years. <sup>1</sup>	40 years. <sup>2</sup>	50 years. <sup>3</sup>	20 years. <sup>1</sup>	40 years. <sup>2</sup>	50 years. <sup>1</sup>
On 3 per cent basis .....	\$19,426	\$109,199	\$173,305	\$114,426	\$304,199	\$418,305
On 3½ per cent basis .....		51,791	111,908	76,483	246,791	356,908
On 4 per cent basis .....			58,057	40,231	194,765	303,057

<sup>1</sup> Decimal for 19 years, and 19 payments.

<sup>2</sup> Decimal for 39 years, and 39 payments.

<sup>3</sup> Decimal for 49 years, and 49 payments.





If the number of payments were to equal the full number of years, there would be an increase over the above in the saving in favor of serial bonds, the ratio of such increase being larger with the bonds of a shorter term.

If both the decimal taken and the number of payments made each equal the full number of years, there will still be a large gain in favor of the serial bonds.

Mr. WEEKS. The committee proposes to issue Panama Canal bonds without sinking-fund or serial provisions. Assuming that the only method the Government has ever used in issuing securities—namely, the sinking-fund method—were followed and the bonds were issued for a term of 50 years, as provided for in the act authorizing their issue, the cost to the taxpayers of the United States on \$1,000,000 of bonds would be \$173,305 more than it would cost if serial bonds were issued. It is proposed in this bill to issue the remaining \$222,000,000 of Panama Canal bonds. If the sinking-fund method is applied to the payment of this indebtedness—and of course some method must be provided for liquidating it at maturity or sometime during the life of the loan—the cost to the taxpayers of this country will be \$38,473,710, an amount which justifies some hesitation in passing this legislation without giving serious attention to the form of bond to be issued and the manner of its payment at maturity.

It has been charged that the serial bond is unpopular and that it requires a higher rate of interest than an issue of bonds which mature at one time, but if that condition existed heretofore, I believe it has entirely disappeared. There is now a great demand for Government bonds to use as a basis for postal savings deposits and for short-time loans to be held by the banks, Federal reserve as well as others. An issue of Government bonds having one-twentieth of its total amount maturing within a year would be eagerly picked up by a great many interests that have in the immediate future a disposal of some of their funds for a specific purpose, but want to keep them employed until that purpose has fully developed. In fact, there is no latitude to the method of liquidating an indebtedness issued under the serial plan. It is safe for the creditor and the debtor, and an immediate public exposure must be made if the debtor fails to make provision for its maturing obligations. Incidentally an indebtedness issued in this way becomes safer as it grows older, because each year a portion of it is liquidated.

In the hearing to which I have referred, which recently took place in Massachusetts, three main items of indebtedness were taken up—that is, the State's contingent obligation in the metropolitan parks, sewerage, and water loans—and it was demonstrated that the difference in favor of issuing serial bonds for this indebtedness, amounting to some fifty-six millions of dollars and having 40 years to run, would be something like \$26,000,000, even if the bond had been issued in serial form at a one-half per cent higher rate than under the sinking-fund method. The difference in the actual cost to the taxpayers between the two methods was shown to be about \$8,360,000 on a  $3\frac{1}{2}$  per cent basis.

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I insert herewith a summary showing the indebtedness to which I have just made reference, and the possibilities if issued on a 3 or a  $3\frac{1}{2}$  per cent basis:

	3 per cent.	$3\frac{1}{2}$ per cent.	Total.	Interest.	Pre- miums.
Sewerage.....	\$7,989,912	\$2,980,000	\$10,969,912	\$13,270,652	\$370,813
Parks.....	2,680,000	8,350,000	11,030,000	14,826,000	739,160
Water.....	10,900,000	23,600,000	34,500,000	45,532,875	2,300,487
	21,569,912	34,930,000	56,499,912	73,629,527 3,410,460	3,410,460
				70,219,067 56,499,912	
Total, principal and interest.....	.....	.....	.....	126,718,979	

I can not emphasize too strongly the fact that the maintenance of a sinking fund is a source of a great deal of trouble, expense, and hazard. The volume of sinking funds now held by the sinking-fund commissions of the city of New York aggregate several hundred millions of dollars. Necessarily, as there must be some considerable parts of these funds uninvested, the possibility of errors and even of dishonest handling would be entirely removed if a serial form of bond were issued instead. Our Government should go out of debt, and provision should be made to refund all Government bonds on a serial basis, or, at least, reestablish a sinking fund, so that our bonds could be paid. As a financial action this should appeal to every Senator. There is no argument against it, and, from the standpoint of good finances as well as good preparedness, there is no reason why we should not pay our indebtedness promptly and systematically. If that were done, there would be no trouble about our financing ourselves in times of greatest stress.

Finally, it is, perhaps, sufficient to say that sinking funds do not in theory amortize a debt; they simply offset it. The only true amortization is extinction. The only sensible method of extinguishing a debt is to pay it in approximately equal installments, which is exactly what the serial bond does.

